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IN THE SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1954

NO. 106

STAPLING MACHINES CO. ..... Appellant

Vs.

A. H. STONE, CHAIRMAN
STATE TAX COMMISSION ..... Appellee

PETITION FOR REHEARING

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The Appellant, Stapling Machines Co., feeling aggrieved at the Per Curiam opinion rendered by this Court on October 14, 1954, to the effect that the appeal entered in this cause had been dismissed for want of a substantial Federal question, is strongly of the opinion and belief that there is a substantial Federal question involved in the right of the State of Mississippi to impose a privilege tax on a foreign corporation engaged solely in the licensing of patent rights to licensees in Mississippi. The appellant is not engaged in Mississippi in any form of commercial enterprise and is not renting or leasing tangible personal property, as the income of Appellant arises only from the royalty rights

obtained from patents, the machine itself being only corollary to the patent right and delivered to the licensee in New Jersey to be moved by the licensee at its discretion to its place of business for the production of patented boxes.

That Appellant is not engaged in leasing or renting tangible personal property, as indicated by the fact that licensee is paying in full for the machine before taking delivery in New Jersey. And the Mississippi State Tax Commission held and so identified these payments as follows:

> "It being determined that the original payments made by the lessees to Stapling Machines Company was not subject to a Mississippi Sales tax since it represented payments which approximately covered the cost of manufacturing the machines. It has been further determined that one-half of the four percent paid by the lessees was not subject to the Mississippi sales tax, since it is agreed that this income was not rental income as the law contemplates, but half of the charge is agreed to be royalty for manufacturing patented boxes. All of the income is determined to be rental where the two percent charge is made for making nonpatented boxes." (From the Order of the State Tax Commission, May 9, 1952).

Appellant has stated that the contracts which are sought to be taxed by the State of Mississippi are entered into entirely in the State of New Jersey and have no consummation except in that State.

The machines are subject to and pay a full ad valorem tax to the State of Mississippi and are subject to a use tax at the time they are brought into the State. The imposition of this tax subjects the Appellant to precisely

the same tax on the royalty income by the States of Mississippi and New Jersey.

Appellant believes that the Court did not give proper consideration to the Interstate nature of the contract between the parties and its continuous operation must of necessity be in Interstate Commerce between the States.

That proper consideration has not been given to the fact that the income is entirely from royalties measured by the units of production of patented articles and not a fixed rental charge for the use of tangible personal property.

The local activity is an integral part of the interstate process, as the interstate nature of the contract between the parties cannot be fulfilled without the flow of commerce between the states and it cannot realistically be separated from it. And if a genuine separation of the taxed local activity from the interstate process is impossible, then the two states involved will exact precisely the same tax measured by the same degree of operation.

The Precise Questions Involved

The questions involved in this case and presented to the Court for its decision are as to whether or not Chapter 119, Laws of 1934, as amended, Mississippi Code of 1942, (Recompiled) Chapter 3, Sections 10,105, 10,111, 10,115, 10,120, and 10,123 violate Paragraph 3, Section 8, of the Constitution of the United States providing that Congress shall have power to regulate commerce with foreign nations and among the several states and with the Indian Tribes, and as to whether or not such paragraphs violate Section (1) of the 14th Amendment to the Constitution of the United States providing that no state shall deprive any persons of life, liberty and prop-

erty without due process of law nor deny to any person within its jurisdiction the equal protection of the law.

The Supreme Court of Mississippi held that the sections were valid and did not violate either the commerce clause or the 14th Amendment to the Constitution of the United States. The Federal question in this cause was properly, timely and fully raised by Stapling Machines Co. and squarely passed upon by the Mississippi Supreme Court.

A SUBSTANTIAL FEDERAL QUESTION IS INVOLVED IN THIS CAUSE

The facts in the case appear from the pleadings and testimony and are undisputed. (R 2). The appellant's declaration alleged that it was a foreign corporation organized under the laws of the State of Delaware but whose domicile and principal place of business and all offices and officers are located in Rockaway, New Jersey, and that it was engaged in licensing patented machines and patents covering different types of boxes made by said machine, and which patents are made the subject of license agreements with licensees in the State of Mississippi. That it has no offices, officers, agents, employees, representatives, and no place of business located in the State of Mississippi. All of its transactions are in interstate commerce, and all of the patents are located in New Jersey, and, therefore, not subject to a privilege tax by the State. That all license agreements are entered into in the State of New Jersey, where patented machines are delivered to the licensee f.o.b. Rockaway, New Jersey, after having been paid the sum of one hundred and five percent of the cost.

The State Tax Commission has attempted to impose a privilege tax as a condition precedent to entering into

the license agreements with licensees in the State of Mississippi, and has cited the Stapling Machines Co. to appear and show cause why it should not be required to pay the privilege taxes imposed by Chapter 119, Laws of 1934, as amended, Mississippi Code of 1942, (Recompiled) Chapter 3, Sections 10,105, 10,111, 10,115, 10,120, and 10,123. (R 8)

The tax is 2 percent of the gross dollars received from the aforesaid license agreements.

Appellant filed with the State Tax Commission a comprehensive statement of the nature and scope of its business in Mississippi and alleged that the imposition of the tax violates constitutional immunities in that the State had no jurisdiction to tax the income from the intangible patent rights, as they had no business situs within the state and also the state's statutory definition of "doing business" could not confer such jurisdiction; that its activities were wholly and completely in interstate commerce and therefore not subject to privilege taxation by the state. The Commission disagreed with Appellant and entered an order sustaining the tax liability. (R 9).

Appellant appealed to the Circuit Court of the First Judicial District of Hinds County, Mississippi, raising these questions by its pleadings. (R 6). The Circuit Court reversed the Tax Commission and held Appellant not liable for the taxes, on the ground, as stated in the opinion, that:

> "From the pleadings and the admission contained therein it appears to me that the entire transaction is in Interstate Commerce. • • • This defense of the transaction, being violative of Commerce Clause of the United States Constitution, is a total defense, and if

good, would, of course, bar the tax and warrant the recovery." (R 69-70)

The Supreme Court of Mississippi reversed the Circuit Court and entered a final judgment dismissing Appellant's suit and the amount sued for for the years 1949 and 1950.

The Supreme Court of Mississippi summarized in its opinion the undisputed facts, as follows:

"The appellant contends that the tax here collected was two per cent of the gross income of appellee from its business of renting or leasing tangible personal property in the state. On the contrary, the appellee contends that the income in question did not arise from rents, but was royalty, and, as such, was not taxable. The decision of this controversy also involves a consideration of what constitutes doing business, the situs of property for taxation, and the commerce clause of the federal constitution.

"The appellee is a Delaware corporation, having a place of business in Rockaway, New Jersey. It leased, under a written contract, to certain persons in the State of Mississippi, delivered f.o.b. the place of manufacture, at the cost of production, certain box making machines on which it held U. S. patents. The lessees thereunder acquired no property rights other than the right to use. The company agreed to furnish repair parts. Its agents were granted access to the machines for inspection and sketching. It had no office or agent in the state. The obligations of the lessees were payable at its principal place of business; and the lessees were required to keep accurate records, separate and apart, and subject to examination by the company's agents who had the right to make copies. The lessees were

also required to report in writing to the company the number of boxes delivered during the past month, to whom sold, and the gross amount thereof.

"Under Section 1 of the lease contract, the lessee had 'the right and license (a) to make on Lessor's machines in the factory of Lessee at Jackson, Mississippi, boxes covered by any one or more of the patents listed in Exhibit A; (b) to use in said factory for the manufacture of boxes, machines leased hereunder from Lessor; (c) to use in said factory, for the manufacture of boxes on Lessor's machines, the method inventions covered by any one or more of said patents; and (d) to sell in the United States boxes made under this agreement.

"Thus it will be seen that the lessees had the right to use the patented machines, to make patented boxes thereon, to use the method inventions covered by the patents, and to sell the boxes in the United States."

Appellant contends, and it is not disputed, that under the license agreement licensee has paid all ad valorem taxes due on the machines.

The Supreme Court of Misissippi held that:

"In other words, the statute defined 'doing business', the corporation operated within that definition, and it was liable for the tax. * * * The terms of the contract can be enforced under the laws of this State. A violation thereof can make the lessee amenable to the process of the state courts. Hence the tax is imposed in return for protection by the state."

Therefore, the Supreme Court of Mississippi held that appellant must pay a privilege tax for the privilege of owning patented machines and patents for the manufac-

ture of boxes, which patents are made the subject of a license agreement in its office in New Jersey. Undoubtedly, appellant is engaging in Mississippi in interstate commerce, and an undomesticated foreign corporation has the right to engage in Mississippi in interstate commerce without obtaining a license or without paying for the privilege, as this privilege flows from the commerce clause of the Federal Constitution. *Spector Motor Service, Inc. v. O'Connor,* 71 S. Ct. 508, 95 L. ed. 573, 340 US 609-10; *Memphis Steam Laundry v. Stone,* 96 L. ed. 436 72 S. Ct. 424; *Michigan-Wisconsin Pipe Line Company v. Calvert,* 74 S. Ct. 396; *Trunkline Gas Co. v. Coleman, Advance Sheets,* 98 L. ed. 42, Case No. 179.

If the Supreme Court of the United States refuses to review this case, the Court will have approved for the first time the right of a State to collect from a non-resident patent owner a privilege tax on patent royalties paid by a resident licensee to the non-resident patent owner under a license agreement entered into in the State of the non-resident patent owner. If this right of taxation stands approved, it will place the situs of a patent at the domicile of the licensee and will subject patent royalty income to double state taxation; first, by the State of domicile of the patent owner and again by the State of the licensee under the patent.

May it please this Court, if this decision stands, it is contrary to the Court's decision in *Miller Brothers Company v. State of Maryland,* US 98 L ed (Advance p. 470) and will make a tax collector of the licensor for the State of Mississippi, as the statute requires the tax to be passed on to the licensee.

Appellant, therefore, respectfully petitions this Honorable Court for a rehearing of this cause and that Appellee

be required to answer this petition in term time and Appellee having answered, the cause be placed on the summary docket for argument.

STAPLING MACHINES CO., APPELLANT

Attorney for Appellant

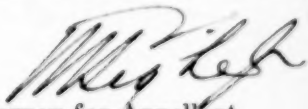
I hereby certify that this Petition is presented in good faith, in the belief that this cause should be reconsidered, and is not filed for purpose of delay.

Attorney for Appellant

PROOF OF SERVICE

I, Bernard Leonard Tighe, Attorney of Record for Appellant, do hereby certify that I have this day handed in person to the Honorable John E. Stone, Attorney for Appellee, in his office in the State Office Building in Jackson, Mississippi, a true and correct copy of the foregoing Petition for Rehearing.

Witness my signature this the 1st day of November, 1954.



Attorney for Appellant